

NSC BRIEFING

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ABOLITION OF THE SOVIET STATE LOAN

- I. On 8 April Khrushchev proposed abolishing annual "bond drive" and suspending for 20-25 years payments due from previous bond drives, amounting to a total of 260 billion rubles.
  - A. Although some Soviet bondholders will be unhappy about the move, should please bulk of population because annual drives have been regarded as a quasi tax. Cancellation will increase purchasing power of population, since the "take" from current bond drives exceeds current repayments. About only persons hurt are those retired or about to retire.
  - B. This year's 1957 bond drive to be cut from 26.6 to 12 billion rubles, will be eliminated beginning in '58. Unclear when repayments to cease--1957 or 1958.
  - C. Khrushchev told his Soviet audience West wouldn't understand. He said "the capitalist--that shopkeeper who would slaughter his own father for a half percent interest, will never understand soul of Soviet man. He will never believe that you consent to this of your own free will."
- II. Bond drives inaugurated in 1927.
  - A. Citizens buy bonds through compulsory payroll deductions.
  - B. Technically, bonds are non-interest bearing, non-transferable, non-redeemable before maturity. Actually, a lottery provides a form of interest and early redemption to winners.
- III. Khrushchev motivated by fact that revenues from bond drives system being reduced since redemptions plus lottery prizes approaching amount borrowed annually. For same reason drives decreasingly

effective method controlling inflationary pressures.

- A. Annual campaign for "voluntary subscription" and payroll deduction probably one of major irritants to populace.
- B. Cancelling subscription and moratorium on repayment is of greatest benefit to young wage earners--the prime target of Soviet labor productivity drive.